

April 22, 2024

Financial Services Group

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Economic Review

- The Labor Department reported that **initial jobless claims** remained unchanged last week, suggesting the labor market is healthy even as announcements picked up in March. Claims jumped in California as a result of a recent minimum wage hike, but were offset by a decline in claims in the other states. Claims have been in an extremely narrow range since the beginning of February between 210k and 213k. In fact, claims have printed exactly 212k in five of the past six weeks. First time claims in regular state programs recorded 212,000 for the week ending April 14th after the prior week's report of 212,000. The four-week moving average remained unchanged at 214,500. Continuing claims, which include people who have received unemployment benefits for a week or more, increased 2,000 to 1.812 million for the week ending April 7th. The insured unemployment rate, the number of people currently receiving unemployment insurance as a percentage of the labor force, remained at 1.2%.
- The New York Federal Reserve reported the **Empire State Manufacturing Index**, which is one of the first signals for factory sector activity, indicated factory activity contracted for the fifth straight month. The index recorded a negative 14.3 in April after a negative 20.9 reading in March. New orders recorded a negative 16.2 in April after a negative 17.2 reading in March while shipments decreased to negative 14.4 after a negative 6.9 reading last month. Readings below zero signal contraction in New York, northern New Jersey, and southern Connecticut.
- The Commerce Department reported that **retail sales** rose more than expected in March and the previous month was revised higher, suggesting consumer demand remains quite strong. Confidence in continued labor market strength alongside gains in the stock market among retirees will support spending for the foreseeable future. Retail sales climbed 0.7% in March after jumping an upwardly revised 0.9% the prior month. Consumers spent more at online retailers and general merchandisers, as well as the price-driven boost from gasoline. The only weak areas were autos and clothing stores. Retail sales represent roughly half of total consumption, while the other half captures spending on services. **Retail sales ex autos and gas** increased 1.0% in March. The numbers in this report are not adjusted for inflation.
- The Commerce Department reported **business inventories** increased 0.4% in February after remaining unchanged the prior month. Inventories are 1.0% higher than a year earlier. **Business sales** jumped 1.6% after dropping 1.0% in January. Sales are 1.0% higher than a year earlier. The ratio of business inventories to sales dropped to 1.38 from 1.39 the prior month.
- The **National Association of Home Builders/Wells Fargo** reported builders housing sentiment leveled off in April after four straight monthly gains. The level is still the highest since July. The reading suggests demand for new homes is strong, but buyers are hesitating until they can better gauge where interest rates are headed. The index of builder sentiment remained unchanged at 51 in April. The index recorded an 84 in December of 2021.
- The Commerce Department reported that **housing starts** took a breather in March as the inventory of new homes for sale is near the highest since 2008 and mortgage rates have stabilized at nearly double the rate before the pandemic. Starts data has been choppy with a slowdown into the peak in mortgage rates in October, then rebounded as rates came down from about 8% to around 6.75% in November and December. Poor weather contributed to a steep decline in January and marginally better weather in February contributed to a rebound. March data shows the rebound lacks durability. Housing starts fell 14.7% in March to a 1,321,000 annualized rate after climbing 12.7% in February to a 1,521,000 annualized rate. Single-family starts decreased 12.4% in March with multi-family starts down 21.7%. **Building permits**, a gauge of future construction, decreased 4.3% in March to a 1,458,000 pace.
- The Federal Reserve reported **industrial production**, which includes factory production, mines and utilities, climbed 0.4% in March after increasing 0.4% in February, which was revised higher from a reported 0.1% gain last month. The gain reflects a larger than expected increase in factory output as manufacturing shows further signs of stabilizing. Production at factories, which make up 74.3% of

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output, rose 0.5% in March after gaining 1.2% the previous month. Utilities rose 2.0% in March after dropping 7.6% in February while mining fell 1.4% in March after gaining 3.0% the prior month.

Capacity utilization, which measures the amount of a plant that is in use, climbed to 78.4% in March from a downwardly revised 78.2% in February.

- The Fed released the latest rendition of the **Beige Book**, which is based on information collected through April 8, 2024. This report is published eight times each year. The report indicated economic activity expanded slightly on balance. The survey contained mixed messages about the likely direction of inflation. Firms reported greater difficulty in passing on higher costs and reported signs of rising financial distress among low-income households and small businesses. The competition has reentered the picture and supply chain disruptions have settled down in great measure. Consumer spending barely increased overall, but reports were quite mixed across Districts and spending categories. Employment and consumer spending have continued to show surprising strength and measures of inflation have remained elevated.
- The Conference Board reported the **index of leading economic indicators** dropped 0.3% in March after gaining 0.2% the prior month. The drop was led by a pullback in building permits, a negative interest rate spread, consumer expectations and ISM new orders. The index of U.S. leading indicators is a gauge of the economic outlook for the next three to six months. The **coincident index**, a gauge of current economic activity, increased 0.3% in March after climbing 0.1% in February.
- The National Association of Realtors reported that **existing home sales** declined 4.3% in March to an annualized selling rate of 4.19 million units. Existing home sales hit a one-year high in February, giving the housing sector a breath of optimism that home buyers were adjusting to higher mortgage rates and elevated prices. The data suggests the February data was inflated by an improvement in the weather from January and the lagged impact of the decline in mortgage rates from October through January. Despite declining momentum in sales and high borrowing costs, prices have been strong. The median selling price advanced 4.8% from a year ago to \$393,500.
- The Mortgage Bankers Association reported the **MBA index of mortgage applications** increased for the second straight week, even as mortgage rates climbed. The index rose 3.3% for the week ending April 12th after climbing 0.1% the prior week. **Refinancing** applications rose 0.5% to 500.7 from 498.3 the prior week. **Home purchase mortgage applications** increased 5.0% to 145.6. Refinancing made up 32.1% of applications with an average loan size of \$255,300, while purchases average loan size was \$447,900. The **average contract rate** on a 30-year fixed-rate mortgage climbed to 7.13% from 7.01% the prior week.

BOND MARKET REVIEW

Rates moved higher again last week on the strong retail sales data that followed a stronger than expected employment report making it less likely the Fed will begin to cut rates soon. Friday's yields for the 2-, 5-, 10- & 30-year Treasury benchmarks securities closed at 4.99%, 4.67%, 4.62% and 4.71%. The 2yr/5yr, 5yr/10yr, 10yr/30yr and 2yr/30yr spreads closed at -32, -5, 9, and -28 basis points respectively.

Source: Bloomberg Finance L.P.

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Economic/Events Calendar

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|-----------|----------|--|--|
| Monday | April 22 | Mar Chicago Fed Nat Activity Index (0.07) | 7:30 Central |
| Tuesday | April 23 | Mar New Home Sales (670k) | 9:00 Central |
| Wednesday | April 24 | Apr 19 th MBA Mortgage Applications Mar Durable Goods Orders (2.5%) Mar Durables Ex Transportation (0.2%) Mar Cap Goods Orders Nondef Ex Air (0.2%) | 6:00 Central 7:30 Central 7:30 Central 7:30 Central |
| Thursday | April 25 | Apr 20 th Initial Jobless Claims (215k) 1 st Qtr Gross Domestic Product (2.5%) 1 st Qtr GDP Price Index (3.0%) 1 st Qtr Personal Consumption (2.9%) Mar Goods Trade Balance (-\$91.0b) Mar Retail Inventories (0.5%) Mar Wholesale Inventories (0.3%) Mar Pending Home Sales (0.2%) | 7:30 Central 7:30 Central 7:30 Central 7:30 Central 7:30 Central 7:30 Central 7:30 Central 9:00 Central |
| Friday | April 26 | Mar Personal Income (0.5%) Mar Personal Spending (0.6%) Mar PCE Deflator-YOY (2.6%) Apr Univ of Michigan Sentiment (77.9) | 7:30 Central 7:30 Central 7:30 Central 9:00 Central |

Source: Bloomberg Finance L.P.

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